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CONSUMER
BANKERS
ASSOCIATION

1992 GUARANTEED STUDENT LOAN SURVEY

AN
ANALYSIS
OF
1991
LENDING
ACTIVITY

CBA CONSUMER BANKERS ASSOCIATION

1992 Student Loan Study

An Analysis of the January Survey

by

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Consumer Bankers Association

The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 800 federally insured banks and thrift institutions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

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1992 CBA STUDENT LOAN SURVEY

In 1987 the Consumer Bankers Association developed a Guaranteed Student Loan Program (GSLP) Survey to compile information to substantiate responses to Congressional and Department of Education policy makers regarding the program.

During the first quarter of 1989 CBA repeated the survey to identify trends and ascertain any new directions in response to continuing profitability pressures related to increased administrative burdens and potential legislative initiatives.

This year CBA completed its third GSLP survey which continues to document emerging trends in the industry and the impact of government and regulatory changes. The survey questionnaire was refined from the 1989 study and questions were added to more accurately define student lending programs and the factors which influence operational philosophy and profitability.

The survey questionnaire was sent out in January 1992, to approximately 300 member financial institutions involved in student lending. There were 52 responses as of April 20. The data collected represents business as of December 31, 1991.

Assets of the survey respondents totaled $824.8 billion. Total guaranteed student loan outstandings of the survey respondents was $10.5 billion and total loan originations during 1991 was $3.4 billion. This represents approximately 26 percent of $13 billion in guaranteed student loans originated in 1991.

Average total asset size of the responding institutions was $16.5 billion. The majority of 1989 survey respondents (59 percent) had assets of between $1 and $20 billion. The average guaranteed student loan outstandings at year-end 1991 of the survey respondents were $202 million and average GSL originations were $67 million.

Where appropriate, the data were compared to the 1989 survey data. Comparisons were also made on the basis of small and large portfolio size. 1991 loan originations of less than $25 million were categorized as small, and originations of more than $25 million were placed in the large category. Twenty-seven respondents fell into the small category and 25 fell into the large category. Cross tabulations also compared student loan programs which service loans through the life of the loan versus those that sell the loan to a third party servicer.

Profitability was analyzed in light of the cost of funds, the special allowance, student loan program expenses, and originations reported by the survey respondents.

The percentages indicated in the survey are of those that responded to that particular question, with exceptions noted.

FACTS ABOUT YOUR INSTITUTION

1. What are your institution's total assets as of Dec. 31, 1991?	$16,496,692,000 Average
2. What are your institution's total consumer loan outstandings as of Dec. 31, 1991 (excluding credit cards and home equity)?	$3,319,109,000 Average
3. What were your total guaranteed student loan originations (volume) during 1991 (including Stafford, PLUS, SLS & HEAL)? Do not include loan consolidations.	$66,896,000 Average
3a. If you offer loan consolidation, what was your 1991 volume?	$8,928,000 Average
4. What were your total guaranteed student loan outstandings as of Dec. 31, 1991?	$201,578,000 Average
5. What were your average student loan outstandings during 1991?	$186,377,000 Average

6. Your institution is best described as a

88%	Commercial bank
4%	Savings and loan
0%	Credit union
2%	Mutual savings bank
6%	Other

Of the 52 respondents, 46 were commercial banks, 2 were savings and loans, one was a mutual savings bank, and three were higher education authorities.

LENDING PROFILE

According to the responses the most important factor in the decision to make guaranteed student loans is the *Government Guarantee*, selected by 96 percent as "very important." Also of primary importance to student lenders is the *Interest Subsidy*, placed in the top two categories of importance by 81 and 15 percent of the respondents respectively. Ranking next in importance is *Profit* selected "very important" by 65 percent of the respondents. The fourth most important factor is *Investment In Community* with 88 percent placing it in the top two categories of importance. *Regulatory Environment* is also as significant factor, with 84 percent placing it in the top two categories.

According to CBA's 1989 Student Loan Study, the most important factors were also the *Government Guarantee* and *Interest Subsidy*, but ranking third in importance was *Regulatory Environment*, followed by *Variable Interest* and *Administrative Burdens*.

1. Please indicate the current importance of each of the following to your institution's decision to make student loans under federally insured student loan programs.

	Importance				
	VERY				NOT
	1	2	3	4	5
Collection costs	38%	23%	25%	9%	4%
Government guarantee	96%	2%	0%	2%	0%
Length of payback period	8%	21%	54%	8%	8%
Variable interest rate	25%	31%	35%	6%	2%
Administrative burdens	42%	44%	8%	4%	2%
Interest subsidy	81%	15%	2%	0%	2%
Secondary market	39%	25%	12%	16%	8%
Demand	35%	35%	23%	4%	2%
Reluctance to phase out existing market	26%	15%	43%	4%	13%
Regulatory environment	46%	38%	10%	4%	2%
Profit	65%	23%	10%	0%	2%
Investment in community	58%	30%	12%	0%	0%
Cross-sell potential	29%	23%	33%	13%	2%

Of greatest importance in determining the total amount of funding to be made available for student lending is *Overall Profitability*, placed in the top two categories of importance by 93 percent of the respondents, followed by *Federal Legislation, Regulations* with 60 percent placing it the most important category and another 30 percent placing it in the second most important category. Third and fourth in importance to making funds available for student lending were *Default Rate* and *Community Service, CRA* with 58 percent and 52 percent respectively indicating they are "very important."

According to the 1989 survey the top two factors were the same, *Overall Profitability* and *Federal Legislation, Regulations,* but the third most important factor in making funds available for student lending was *Administrative Costs*, followed by *Community Service, CRA* and *Default Rate*.

2. Please indicate the importance to your institution of the following factors in determining the total amount of funding to be made available for lending in the federally insured student loan programs.

	Importance				
	VERY				NOT
	1	2	3	4	5
Default rate	58%	23%	13%	4%	2%
Overall profitability	67%	25%	6%	0%	2%
Liquidity	40%	48%	8%	2%	2%
Administrative costs	35%	53%	6%	4%	2%
Competitors' behavior	13%	36%	31%	19%	2%
Community service, CRA	52%	30%	16%	0%	2%
New customer potential	33%	25%	31%	10%	2%
Demand	33%	29%	31%	6%	2%
Federal legislation, regulations	60%	30%	6%	2%	2%

Funding

The responsibility for determining the total amount of funds to be made available for educational lending seems to be shifting away from *Asset Liability Management* and towards *Corporate Planning Staff*. Comparing this year's responses with the 1989 study there was an 11 percent increase in the *Corporate Planning Staff* category and a 16 percent decrease in the percentage of institutions choosing *Asset Liability Management* as the level of management with responsibility for student lending. The *Consumer Loan Division* was the most popular selection with 40 percent of respondents, which is consistent with the 1989 study data.

Banks with less than $25 million in 1991 originations placed the responsibility for student lending in the *Consumer Loan Division* more than twice as often as banks with larger originations. Fifty-two percent of the smaller loan programs placed student loans in the *Consumer Loan Division* versus 25 percent of the larger lenders. Thirty-three percent of banks with large student loan programs placed the responsibility for student loans in the *Asset Liability Management* section versus only 19 percent of the small lenders.

3. What level of management at your institution is responsible for determining the total amount of funds to be available for educational lending?

25%	Asset liability management
19%	Corporate planning staff
40%	Consumer loan division
6%	Finance division
14%	Other

Respondents could choose more than one answer.

4. Is your institution's student loan area a profit center?

	All lenders	Small	Large
Yes	71%	56%	88%
No	10%	11%	8%
We don't have a profit center concept	15%	26%	4%
Don't know	4%	7%	0%

5. If yes, do Return On Equity (ROE), Net Income Before Taxes (NIBT) meet your institution's standards?

	All lenders	Small	Large
Yes	72%	75%	68%
No	10%	6%	14%
Don't know	18%	19%	18%

BUSINESS STRUCTURE

1. Does your institution's treasury provide funds to your student loan business based on your institution's cost of floating rate products?

	All lenders	Small	Large
Yes	65%	48%	83%
No	35%	52%	17%

2. Does your institution restrict lending to students attending certain schools on the basis of school default rates?

	All lenders	Small	Large
No	31%	37%	25%
Yes	69%	63%	75%

If yes, at what default rate do you terminate schools? 23% Average

This year's study reflected a significant increase in the percentage of institutions that restrict lending to students attending certain schools on the basis of school default rate. The percentage rose to 69 percent, from 31 percent in 1989.

The average default rate at which institutions terminate schools remained relatively unchanged from the last study at 23 percent.

3. Does your institution monitor its student loan portfolio by market segment? (i.e. college/university, trade/technical, community college, graduate/professional)

	All lenders	Small	Large
Yes	82%	69%	96%
No	18%	31%	4%

The percentage of institutions that monitor loan portfolios by market increased 33 percent from the 1989 study.

Loan Conditions

The number of lending institutions which require applicants to demonstrate financial need saw the greatest decrease from the last study. Also seeing significant decreases were institutions which require the applicants to be creditworthy, as well as those which require applicants to be a resident of the state or region in which the institution is located.

Areas which saw significant increases in the number institutions which require them were enrollment in a specified type of school, college or university and minimum grade level in school.

Significantly, 50 percent of small lenders reported that *Creditworthiness* was a condition that must be met before making a guaranteed student loan versus only 30 percent of large lenders.

4. Does your institution have a student lending policy which requires applicants for federally insured student loans to meet any of the following conditions?

	YES	NO
Resident of state or region in which your institution is located	27%	73%
Customer of your institution	2%	98%
Enrollment in a specified type of school, college or university	39%	61%
Minimum grade point average	8%	92%
Enrollment in a school, college or university in the state or region in which your institution is located	17%	83%
Demonstrated financial need	58%	42%
Creditworthiness	40%	60%
Minimum grade level in school	14%	86%

Other: *PLUS loan creditworthiness; minimum two year program enrollment; borrower must be attending school full time upon submission of the application; no loans to students attending proprietary schools outside state; follow guidelines set by state and Department of Education; requirements set by guarantee agency; no prior defaults*

Budget Figures for the Most Recent Fiscal or Calendar Year

5. What is your institution's annual origination expense (on a per loan basis) for student loans (direct expenses associated with physically originating a loan, including obtaining the guarantee, signatures, and loan origination and disbursement expenses)?

$35 Average (20 replies)
Small $38
Large $16

6. What is your institution's annual direct marketing expense (on a per loan basis) for student loans (including all salaries and direct expenses related to marketing and sales activity)?

$17 Average (21 replies)
Small $23
Large $9

7. If your institution has direct cost allocations to student loans, what is the annual cost of payment processing, accounting systems, customer service, and operations? (on a per loan basis)

$25 Average (16 replies)
Small $30
Large $22

8. If your institution has direct cost allocation to student loans, what is the annual cost of collection, reconciling with guarantors and handling deferment? (on a per loan basis)

$30 Average (12 replies)
Small $34
Large $16

The differences in the above cost allocations between small (originations of less than $25 million in 1991) and large (originations of more than $25 million in 1991) lending programs can largely be attributed to the cost savings inherent in the economies of scale in the large institutions.

9. What are your institution's total annual expenses, including salaries, for student loans without corporate overhead allocation?

$2, 846,000 Average Total Expenses (34 replies)
$232,880,000 Average Total Outstandings

The figures above represent a ratio of expenses to outstandings of 1.22 percent. This compares to 1.23 percent from CBA's 1989 student loan survey, which was based on responses received from 20 lenders. (Note: these figures do not include an allocation for corporate overhead, which is a significant, but variable, expense in computing bank product line profitability.)

The average expenses for those 20 respondents in 1989 was $2,960,641, compared to $2,846,000 for 34 respondents in the current survey. The average outstandings of this group was $241,300,000 in 1989, compared to $232,880,000 in the year-end 1991 survey.

Expenses are a key determinant of lender profitability. These expense ratios cannot be considered representative of the typical student lender, but rather of the largest holders of student loans. Only 15 banks had student loan portfolios exceeding $232 million as of Sept. 30, 1989, according to the most recent data available from the Department of Education.

To determine why expense ratios at the largest banks remained remarkably stable during a period of significant changes in the student loan programs, it is useful to examine the factors affecting bank administrative costs of the program.

Many large lenders have reduced lending to high default rate schools, thus reducing the amount of short-term, low-balance loans with higher administrative costs associated with collection efforts. In the current survey, 69 percent of lenders said they restrict lending to schools on the basis of default rates, compared to 31 percent who reported such restrictions in 1989 (Question 2, Pg. 6)

However, offsetting any cost savings presumed from lower defaults are the expenses associated with an increase in rejected claims by guarantee agencies. By more than a two-to-one ratio, large lenders report a "significant increase in the number of rejected claims as a result of technical violations of the government's prescribed due diligence in collection standards." (Question 13, Pg. 15)

Considerable lender expenses are associated with correcting what in many cases are technical or de minimus errors which result in an increasing number of claims being rejected by guarantee agencies. These rejected claims must be resubmitted, increasing lender costs.

Costs are incurred in "cures" of non-compliance with detailed due diligence collection efforts, and with the write-off of principal and interest when cures are not possible. Fifty-six percent of respondents reported interest write-offs and 49 percent reported principal write-offs in connection with the increase in rejected claims. (Question 14, Pg. 16)

As this survey is being published (May, 1992), Congress is considering a reduction in the Special Allowance to lenders of at least 0.15 percent, from 3.25 to 3.1, which will directly reduce the profitability of student lending.

Policy Responses

Any reduction in the federal guarantee would have a devastating effect upon participation in the guaranteed student loan program. Twenty-seven percent of the respondents said they would drop out of the student lending program ($0 projected level of lending) and another 65 percent said they reduce their present level of lending if the federal guarantee was reduced to less than 100 percent. A reduction in the special allowance by 25 basis points would cause many lenders to reduce their present levels of lending. Four percent of the respondents said they would drop out of the program and 66 percent said they would reduce their present levels of lending.

Also having a negative impact on the projected amount of lending is Stafford eligibility being subject to income tests; 39 percent of the respondents indicated they would reduce their level of lending. If the borrower is charged full market rate after the second year of repayment, 32 percent said they would reduce their level of lending.

If Stafford eligibility is expanded to middle income students, 68 percent said they would lend at the maximum possible levels. If the current rules and regulations remain the same, 42 percent said they would lend at the maximum possible levels.

10. What in your estimation, would be your institution's short-term response to the following policy scenarios with respect to participation in federally insured student loan programs?

	Projected Level of Lending			
	None ($0)	Less than Present	Same as Present	Maximum Possible
Current rules and regulation remain as is for another year	0%	0%	58%	42%
Stafford eligibility is subject to a stricter income test	2%	37%	39%	22%
Special allowance is reduced by 25 bps	4%	66%	20%	10%
Borrower is charged full market rate after second year of repayment, thus eliminating special allowance	8%	24%	56%	12%
Federal guarantee is reduced to less than 100% (risk-sharing)	27%	65%	8%	0%
Stafford eligibility is expanded to middle income students	0%	0%	32%	68%

The percentage of institutions that reported they would drop out ($0 projected level of lending) of the student lending program or reduce their present levels of lending if the federal guarantee was reduced to less than 100 percent is down from the 1989 study. In 1989, 66 percent of the respondents said they would drop out of the student lending program if the federal guarantee was reduced to less than 100 percent and another 20 percent said they would reduce their present levels of lending.

The percentage of institutions that reported they would drop out ($0 projected level of lending) of the student lending program or reduce their present levels of lending if the special allowance was reduced by 25 basis points is also down from the last study. In 1989, forty percent of the respondents said they would drop out of the GSL program if the special allowance was reduced by 25 basis points and another 37 percent said they would reduce their present levels of lending.

When comparing small lenders to large lenders the most important factor in determining the level of lending for both groups is the federal guarantee. The special allowance seems to be more important to large lenders, with 8 percent indicating they would drop out of the program and another 79 percent would reduce their present levels of lending if the special allowance was reduced by 25 basis points. No small lenders stated they would drop out of the program if the special allowance was reduced and only 56 percent said they would reduce their present levels of lending.

11. How many student loan guarantee agencies does your institution have lending agreements with?

All lenders	Small	Large
2.6 Average	1.4 Average	3.9 Average

12. Does your institution perform "credit" reviews of guarantee agencies?

	All lenders	Small	Large
Yes	63%	42%	86%
No	37%	58%	14%

The percentage of institutions that perform "credit" reviews of guarantee agencies increased 21 percent from the 1989 study.

13. Has your institution restricted lending activities with any guarantee agency (other than HEAF) based on the agency's financial condition?

	All lenders	Small	Large
Yes	18%	12%	22%
No	82%	88%	78%

14. Do your institutional policies result in restricted lending to proprietary schools?

	All lenders	Small	Large
Yes	69%	58%	79%
No	16%	19%	13%
Don't have policies regarding schools	16%	23%	8%

15. Does your institution market alternative education financing products, such as non-federally insured loans?

	All lenders	Small	Large
Yes	33%	18.5%	46%
No	67%	81.5%	54%

Annual volume for alternative education financing products, such as non-federally insured loans was $1.5 million (median) for all lenders responding to the question.

OPERATIONAL PHILOSOPHY AND PRACTICE

1. Does your institution originate student loans at a third-party servicer?

	All lenders	Small	Large
Yes	57%	44%	70%
No	43%	56%	30%

2. Does your institution service in-school student loans at a third-party servicer?

	All lenders	Small	Large
Yes	65%	56%	74%
No	35%	44%	26%

The percentage of schools that service in-school student loans at a third party servicer rose 15 percent from the 1989 survey.

3. What is the timing of loan sales to secondary markets at your institution?

	All lenders	Small	Large
At origination	0%	0%	0%
Within 12 months of origination	6%	11%	0%
Prior to repayment	40%	33%	50%
Other	12%	11%	13%
Don't sell loans	42%	44%	38%

Respondents could choose more than one answer.

4. What percentage of your institution's federally insured student loan volume is sold?

	All lenders	Small	Large
None	43%	44%	39%
Yes	57%	56%	61%

Of those respondents that sell loans, an average of 82% of the portfolio is sold.

5. Does your institution service repayment status student loans at a third-party servicer?

	All lenders	Small	Large
Yes	47%	41%	52%
No	31%	37%	26%
Do not hold repayment loans	22%	22%	22%

6. Who in your institution is involved in decisions about secondary market activity?

	All lenders	Small	Large
Corporate planning staff	12%	15%	9%
Line executive in consumer loan division	37%	46%	27%
Line executive in finance division	0%	0%	0%
Combination of the above	49%	39%	59%
None of the above	4%	0%	9%

Respondents could choose more than one answer.

7. If your institution utilizes multiple guarantee agencies, is there a significant difference in level of support from one agency to the next?

	All lenders	Small	Large
Yes	40%	19%	63%
No	19%	15%	25%
N/A	40%	67%	13%

8. Of which of the following sources does the staff at your institution primarily depend for information concerning federally insured student loan programs?

	All lenders	Small	Large
Federal government	25%	30%	21%
Guarantee agencies	50%	56%	42%
Secondary market	4%	7%	0%
Servicers	14%	15%	13%
CBA	27%	22%	33%
All of the above	46%	37%	58%
Other	4%	7%	0%

Respondents could choose more than one answer.

In comparing the above statistics to those of the 1989 study, student lenders seem to be relying more upon guarantee agencies and CBA, as well as multiple sources and less upon servicers and the federal government for student lending information.

9. In your estimation, how do the administrative burdens of processing federally insured student loans compare with those of other consumer installment loans?
(Of those respondents that service repayment status student loans in-house)

0%	50% less burdensome than installment loans
0%	25% less burdensome than installment loans
6%	Same as installment loans
44%	25% more burdensome than installment loans
50%	50%+ more burdensome than installment loans

10. Does your institution prepare the quarterly interest billing (Form 799) on an automated basis? (Of those respondents that service repayment status student loans in-house)

56% Yes
44% No

If yes, do you use a 40% PC or 60% mainframe computer? (of all lenders that responded)

11. The federal government should issue data record standards for student loan programs, thereby reducing differences among various guarantee agencies.

	All lenders	Small	Large
Strongly agree	39%	26%	54%
Agree	33%	30%	33%
Do not agree	2%	0%	4%
Do not use multiple agencies	27%	44%	8%

CONCLUSION: Ninety-seven percent of those respondents which use multiple agencies strongly agree or agree.

12. The federal government should prescribe standard loan documents (applications, promissory notes, disclosure, deferment forms, etc.) for use by all guarantee agencies.

	All lenders	Small	Large
Strongly agree	48%	33%	67%
Agree	29%	33%	21%
Do not agree	4%	4%	4%
Do not use multiple agencies	19%	30%	8%

CONCLUSION: Ninety-five percent of those respondents which use multiple agencies strongly agree or agree.

13. Has your institution experienced a significant increase in the number of rejected claims as a result of technical violations of the government's prescribed due diligence in collection standards?

	All lenders	Small	Large
Yes	49%	46%	54%
No	29%	31%	25%
Do not hold repayment loans	22%	23%	21%

14. What was your institution's response to the increase in rejected claims? (Circle all that apply)

49%	Successful cures most of the time
56%	Interest write-offs
49%	Principal write-offs
41%	Established recovery operation
44%	Avoided high default-rate schools
3%	Eliminated or changed guarantee agencies
13%	Sold loans in repayment
36%	Now sell loans before repayment
0%	Exited program

15. The federal government should develop and issue standard collection requirements, in order to reduce the differences in collection procedures required by various guarantee agencies.

	All lenders	Small	Large
Strongly agree	50%	37%	67%
Agree	19%	19%	21%
Do not agree	12%	7%	13%
Do not use multiple agencies	25%	37%	13%

CONCLUSION: Over eighty percent of those which use multiple agencies strongly agree or agree.

PROGRAM POLICY CONCERNS

1. In general, the legislative and regulatory process as it relates to federally insured student loan programs,

	Agree	Disagree	Don't know
Is responsive to program needs, problems	6%	86%	8%
Adequately serves and protects national interests	12%	77%	12%
Is the primary cause of program complexity	86%	10%	4%
Is driven by special interests	51%	18%	31%
Is capable of resolving program problems	35%	53%	12%
Is responsive to concerns of the lending community	12%	80%	8%

2. In your view, how would the implementation of the following changes in the origination process impact the Guaranteed Student Loan Program?

	Impact on Program			
	Very Positive	Positive	No Effect	?
Consistent standards, accountability related to disbursement (school responsible for unreleased checks, ineligible disbursements: borrower not responsible for fees on cancellations	45%	43%	4%	8%
Consistent standards, accountability related to refunds (schools accountable for untimely return of checks, no pro-rated refund of fees to borrower)	47%	41%	4%	8%
Consistent standards, accountability related to Borrower eligibility (clear definition of "no shows" and standard process of identifying "no shows")	44%	34%	4%	18%
Uniform procedures for late disbursements	45%	41%	8%	6%
Lender held harmless for errors which do not affect loan's collectibility	65%	33%	0%	2%

3. In your view, how would the implementation of the following changes in deferment/ forbearance processing impact the Guaranteed Student Loan Program?

	Impact on Program			
	Very Positive	Positive	No Effect	?
Simplified in-school verification (requests via telephone, SSCR)	63%	27%	2%	8%
Automatic PLUS deferment when student status makes parent eligible	42%	30%	14%	14%
Elimination of "new borrower" and "disbursed on or after concepts"	50%	30%	8%	12%
Elimination of multiple deferment categories and varying time limits	53%	29%	6%	12%

The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 900 federally insured banks and thrift institutions that hold more than 80 percent of all consumer deposits and more than 70 percent of all consumer credit held by federally insured depository institutions.

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